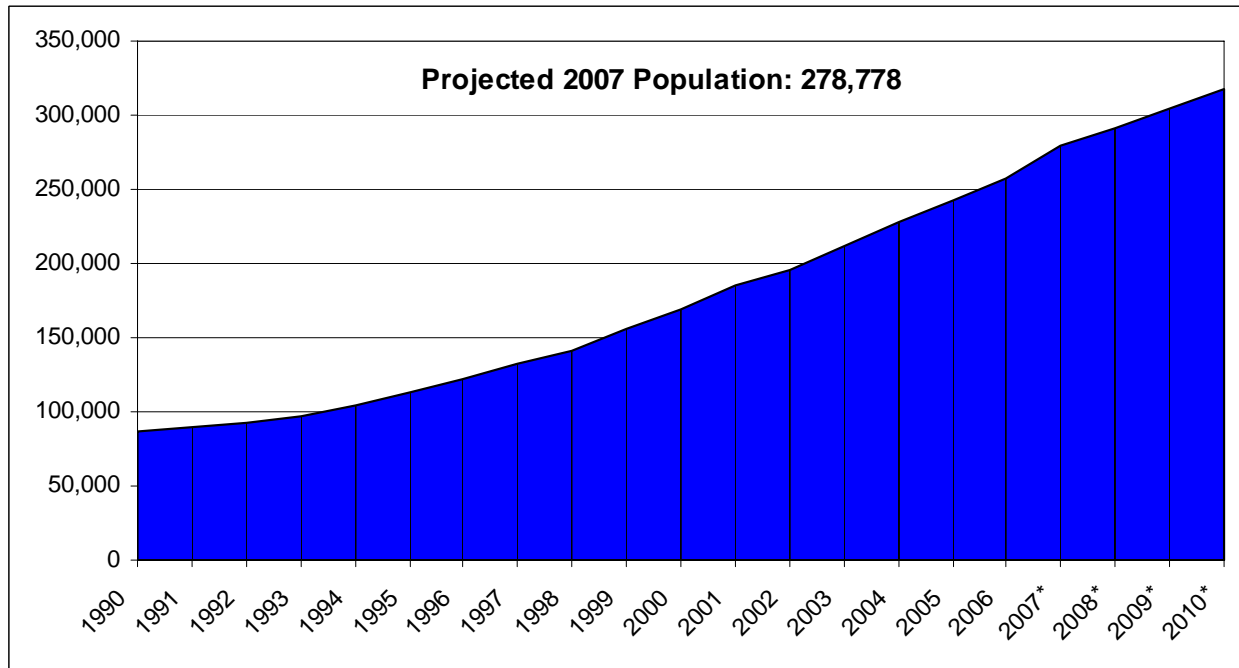


Demographic Environment

Loudoun County is one of the fastest growing counties in the United States. In the 1990's, the County nearly doubled its population with a 97% growth rate. The County's estimated population in 2007 will be 278,778; a population increase of 64% since 2000. Projections show the County will continue to grow at a rate of about 88% during this decade (2000-2010).

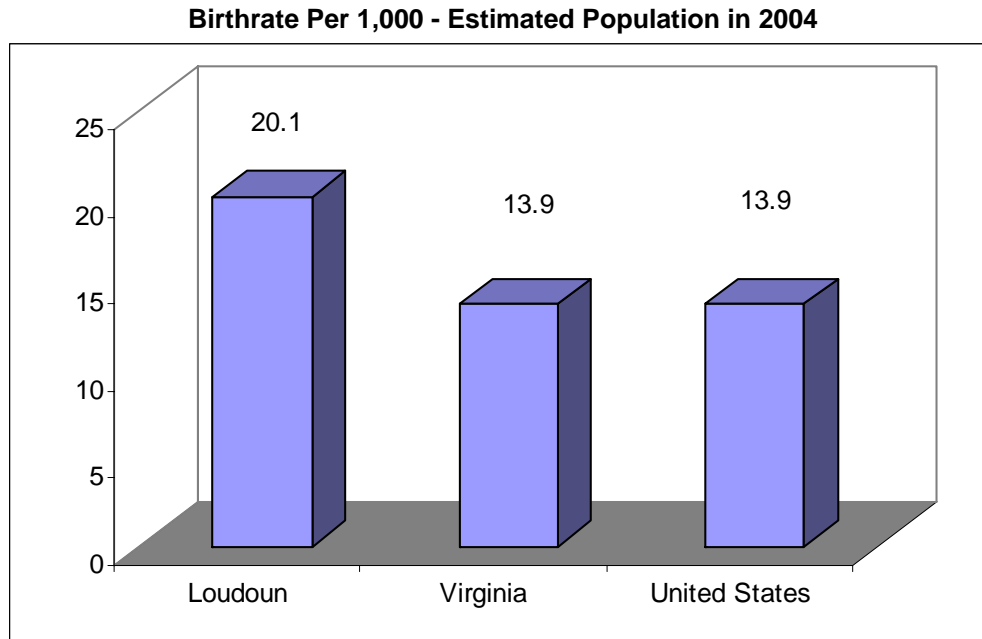


**Projected*

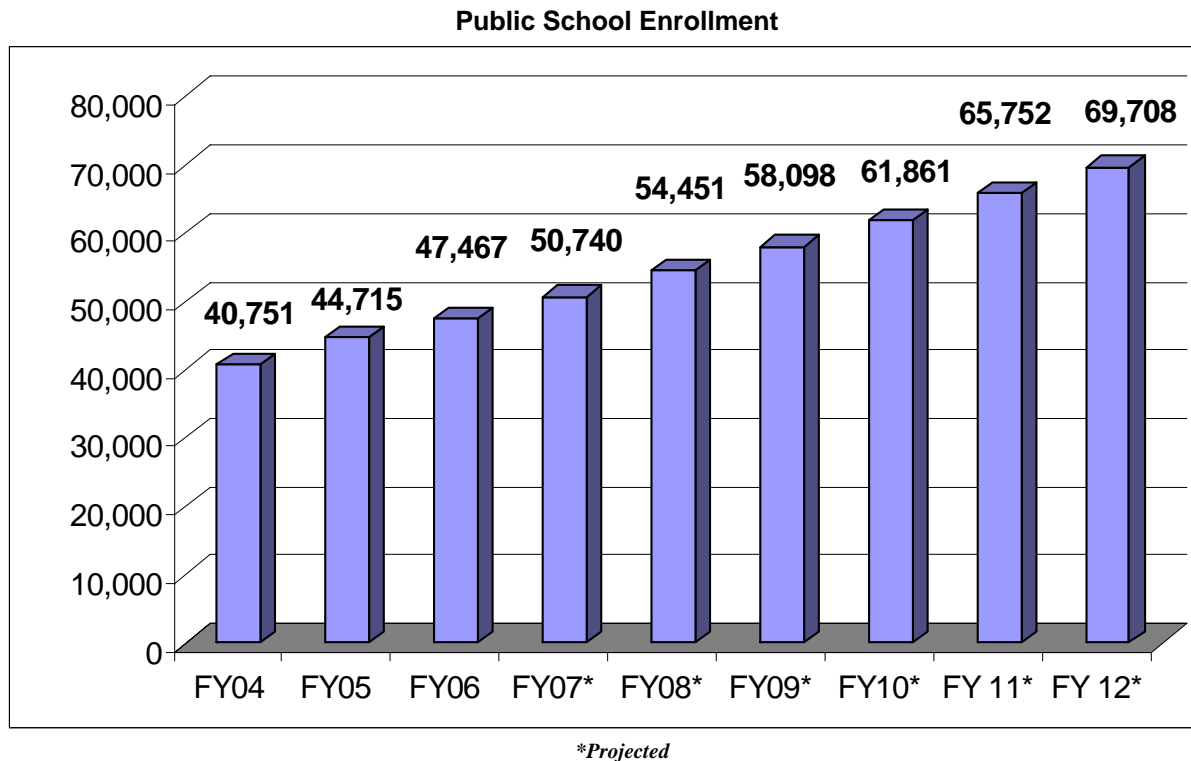
The majority of the County's population growth is due to the in-migration of new residents. It is estimated that more than 60% of Loudoun's population growth during the last two decades was due to migration. Sixty-three percent of Loudoun's residents have lived in the County for less than ten years. Many new residents come to Loudoun County to take advantage of its growing economy, job opportunities, housing availability and public school system.

Population growth can also be attributed to the County's high birthrate, which is roughly 45% higher than both the Commonwealth of Virginia's and the national average. This is due to the fact that young families dominate the County's population. Thirty-five percent of the County's residents are between the ages of 25-44.

Demographic Environment



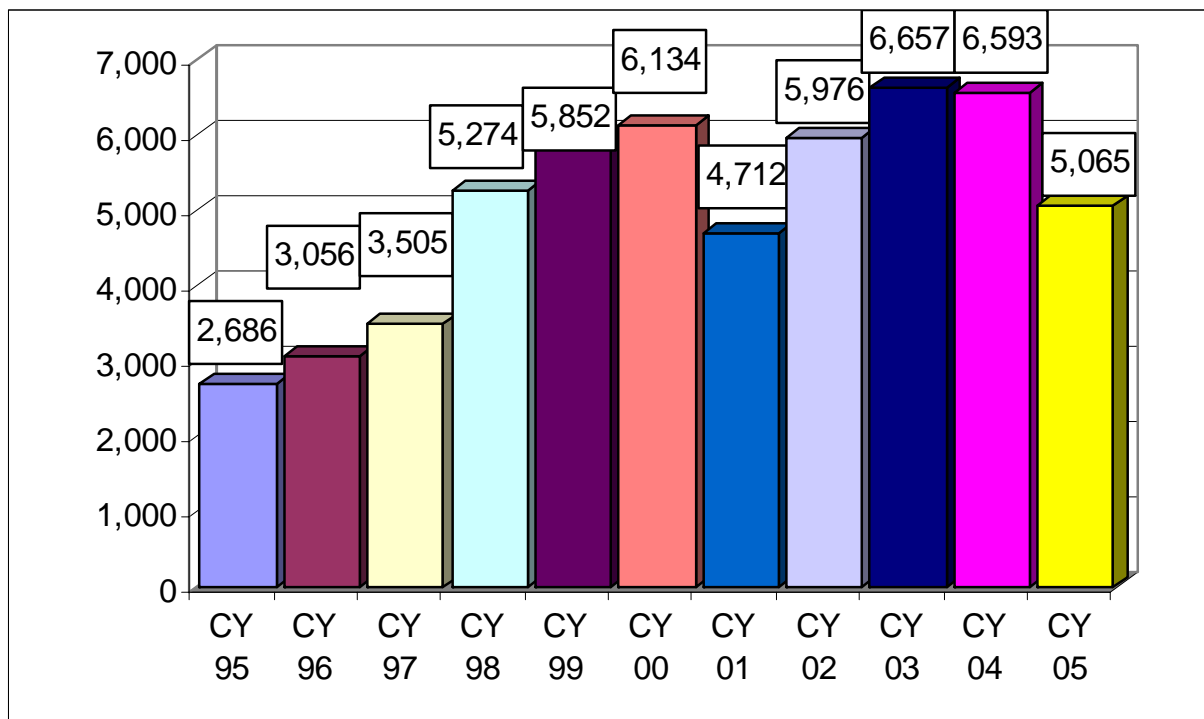
The high percentage of young families is responsible for the County's large population of school children. Twenty-six percent of the total population is between 5-19 years old; another 10% of the population is under five years old. Loudoun's public school enrollment grew 117% during the 1990's, and continues to increase 9% annually. Public school enrollment in 2007 is projected to total 50,740.



Demographic Environment

The number of residential building permits issued by the County will remain at a high level for the foreseeable future. In 2005, 62% of housing units in the County were single-family detached units, 26% were single-family attached units and 12% were multi-family units.

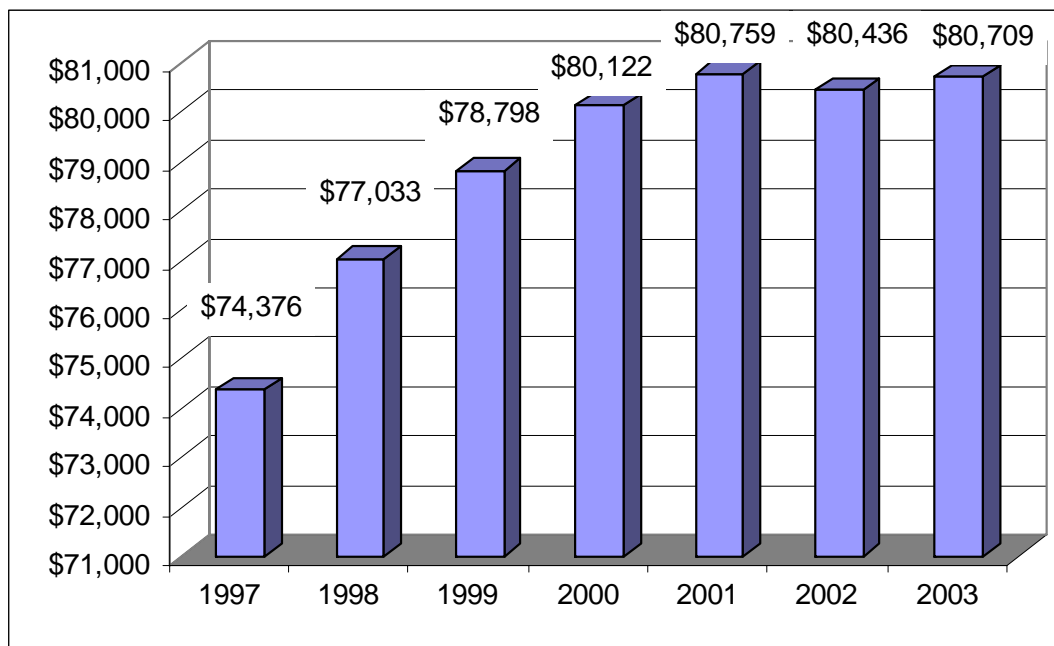
Residential Building Permits Issued for New Construction



Demographic Environment

The County's population growth is accompanied by high levels of income. The median adjusted gross income (income for married filers) grew from \$69,152 in 1996 to over \$80,000 in this decade. The U.S. Census Bureau's estimate of median household income tells a similar story. The most recent estimate, for 2003, is \$80,709.

Adjusted Gross Income of Loudoun Married Filers

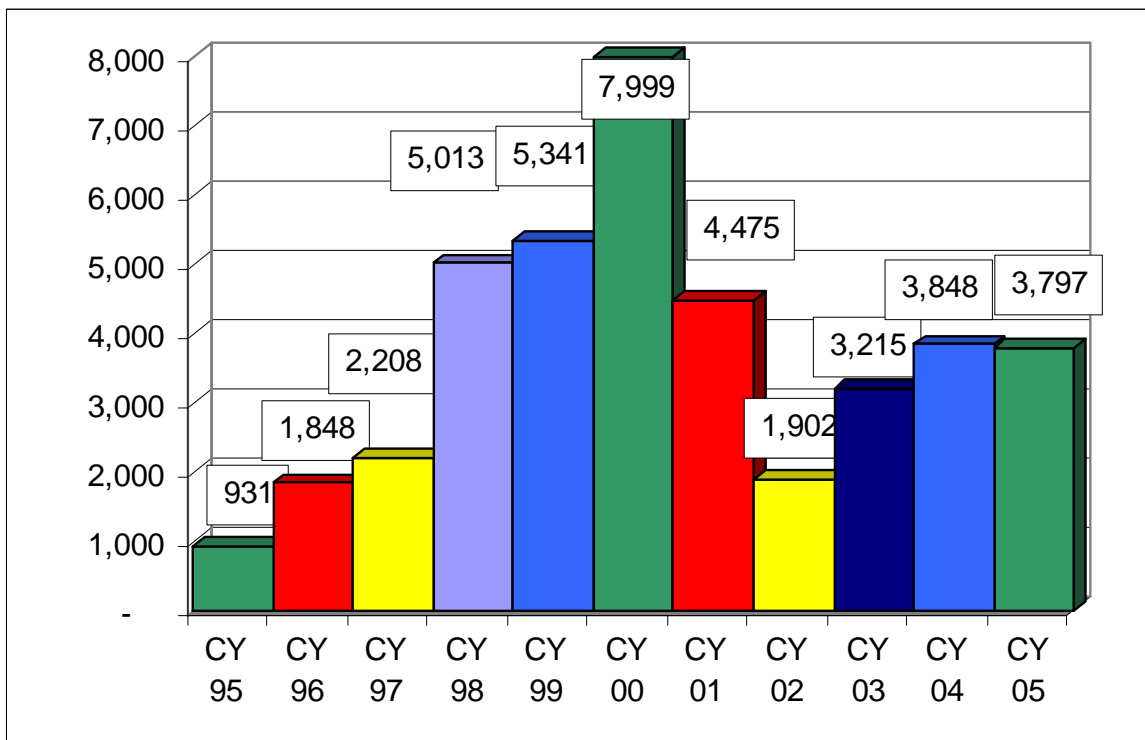


Economic Environment

In 2005, Loudoun County increased its overall employment by 6.9%. The increase in employment can be attributed to growth in the transportation & warehousing, construction, retail and service industries. Of the total number of jobs located in the County, 70% are employed in wholesale and retail trade, information technology, transportation, finance, insurance, real estate and other service industries.

While many jurisdictions are concerned about the economy, the Washington region is one of the few high growth regions in the northeastern United States. The County managed to create 32,887 new jobs between 2000 and 2005, while total employment more than doubled between 1990 and 2000. Loudoun's median family income of \$89,890 is the highest in Virginia and third highest in the nation, and the County's unemployment rate of 2% is the lowest in Virginia. Projections indicate that the County's total employment will increase 76% between 2000 and 2010.

Thousands of Square Feet of New Commercial Construction
(Thousands of square feet permitted)



Economic Environment

In 2004, the Board of Supervisors unanimously adopted a community economic development strategy. This strategy offers a vision of Loudoun with a globally competitive economy, favorable business environment, exceptional quality of place, and a strong sense of community. Loudoun continues to make progress toward achieving this vision. Loudoun has earned a reputation as one of the most desirable places to live and work in the United States. Recent reports from the Federal government have ranked Loudoun number one among the nation's counties in both population and job growth.

The County's growth will lead to further economic development and spin-off businesses, requiring additional retail and other service industries. Expansion projects are currently underway at Washington-Dulles International Airport, George Washington University's Loudoun campus and Inova Health System's Loudoun Hospital campus. Significant new facilities include the Jack Kent Cooke Foundation and the renowned Howard Hughes Medical Institute, which is scheduled to finish construction on its state of the art biomedical science center later this year. The County's list of major employers includes America Online, the Department of Homeland Security, Inova Loudoun Hospital, United Airlines and Verizon Communications.

Growth will also not be without significant costs as the demand for public services and new schools continues to increase and transportation concerns continue to impact residents' quality of life. Furthermore, the intensely competitive economic environment presents a significant challenge for the County in its ongoing efforts to recruit and retain highly qualified workers.

Land Values

The estimated fair market value of real property is projected to increase from \$45.5 billion as of January 1, 2005, to \$59.8 billion as of January 1, 2006, and to \$65.6 billion as of January 1, 2007. These are increases of 32% in calendar year 2005 and 10% in calendar year 2006.

Residential property values in Loudoun County (including new construction) increased by 36% from January 1, 2005 to January 1, 2006, and are projected to increase by 11% during 2006. The average assessed value of a single family home in Loudoun increased by 28.4%, from \$409,759 in 2005 to \$526,111 in 2006. Total commercial and industrial values increased by 23% from January 1, 2005 to January 1, 2006, and are projected to increase by 8% as of January 1, 2007. Agricultural property values increased by 12% in 2005.

Service Delivery Environment

The rapid population growth in Loudoun County continues to be the dominant local trend, affecting every area of the government's operations. Loudoun is growing by 13,000-16,000 residents per year. About 40% of these new residents move here from Fairfax County; about 15% come from outside the region. The expectations of these residents are shaped by their previous experiences. As a result, the County is challenged to meet the public's increasingly high demand for, and changing expectations of, public services.

The Board of Supervisors continues to seek appropriate funding for high priority initiatives, which include education, public safety, transportation and parks programs.

Economic Environment

Schools: The continual growth of students in the County's public school system greatly affects the County's overall financial situation. Nearly 70% of the County's total appropriations are designated for the public school system. Continual increases in public school enrollment will continue to affect the County's tax rate and future financial flexibility.

The top priorities of the public school system are to improve class size and teacher quality. This involves funding school construction to keep up with the increasing number of schoolchildren and compensation enhancements to recruit new teachers. The FY 07 budget provides 96% of the School Board's funding request to operate the County's school system. The Board's Adopted Capital Improvement Program provides funding for nineteen schools scheduled to open between FY 08 and FY 12. These capital improvements will provide classroom space for nearly 19,000 additional students, an increase of 37% over FY 07 projected enrollment.

Public Safety: The Board of Supervisors has established keeping the number of Sheriff's deputies at or near the County's adopted per capita ratio of 0.8 deputies per 1,000 residents as a continuing goal. The FY 07 budget adds resources to the Sheriff's Office, including 22 field deputies, one captain, emergency communications staff, motor enforcement officers and court security staff.

The FY 07 budget also increases the number of career fire/rescue personnel to improve emergency response coverage within the County. 52 new positions will be dispatched to stations in Dulles South, Hamilton, Purcellville, Philomont and on the Route 50/15 corridor. In addition, staff will operate the new Moorefield Station Basic Life Saving Unit, implement employee firefighter safety and volunteer recruitment and retention programs and staff the emergency communications center.

Health & Welfare: The County continues to focus on waiting lists for vital human services, such as mental health, mental retardation and substance abuse services. The lists have been shortened as new facilities and programs are introduced to handle excess demand. But the number of new clients often outpaces the County's ability to provide services to everyone in need. The effort to keep pace with client growth will continue into the foreseeable future. The FY 07 budget adds resources to the child protective service, intensive community treatment and mental health programs and to support bilingual outreach and medical emergency preparation activities. The FY 07 budget also includes funding for replacement of the mental health/mental retardation client system, which will result in productivity improvements throughout the County's health and welfare agencies.

Parks & Recreation: Increases in the County's population also impacts citizen demand for the County's parks & recreation programs. The County continues to refine its program offerings, classes and sports leagues while expanding recreational space to accommodate the public's desires. The FY 07 budget adds resources to the Department of Parks, Recreation & Community Services to operate the new Carver Center in Purcellville and the Claude Moore Park Recreation Center in Sterling. The budget also includes funding for childcare programs and facilities planning.

Transportation: The FY 07 budget takes a major step toward direct County involvement in the development of road infrastructure by funding \$12.5 million in FY 07 for preliminary engineering on Routes 50 and 659 and spot improvements on Route 7. The budget also addresses transit needs by adding commuter buses and funding for development of park and ride lots in Leesburg and Purcellville.

Economic Environment

New Facilities: The FY 07 budget includes additional local tax funding for six projects that will become operational. These facilities include (department and local tax funding in parentheses):

- Adult Detention Center (Sheriff & General Services, \$3,110,000);
- Carver Center (PRCS & General Services, \$1,245,000);
- Edgar Tillett Memorial Park (PRCS, \$77,000);
- Courtroom Additions (Courts & Sheriff, \$165,000);
- Burn Building & Training Center Expansion (Fire & Rescue & General Services, \$370,000), and
- South Riding Fire/Rescue/Sheriff Station (Fire & Rescue, Sheriff & General Services, \$412,000).

In addition, the FY 07 budget includes funding for the Claude Moore Recreation Center, which is projected to be supported entirely by program and facility fee revenue.

Capital Improvement and Debt Service Environment

The FY 07-12 Adopted Capital Improvement Program, with its \$1.35 billion in combined General Government and School expenditures, totals \$290 million less than the Proposed CIP. Reductions implemented by the Board of Supervisors during the budget process totaled \$180.5 million on the General Government side, principally due to the deferment of major road construction projects, and \$109.7 million for the School system, reflecting the Board of Supervisors' commitment to its established debt issuance guidelines.

Debt Cap Guideline: The Board of Supervisors' adopted CIP was developed in the context of its decision to impose an annual guideline of maximum debt issuance for the six-year capital planning period. The Board's original guideline had a beginning debt issuance ceiling of no more than \$200 million in FY 05 with a gradual decrease to \$125 million per year in FY 10. During the FY 07 budget process, the Board subsequently amended the guideline to maintain the debt issuance ceiling at an ongoing constant level of \$200 million per year after consulting with the three major rating agencies. The use of the debt cap guideline shaped the decisions by which projects were ultimately adopted in the six-year plan, resulting in changes to schools and road projects. The amount of debt financing in the adopted CIP reflects a reduction of \$353.3 million in financing than what was projected in the proposed CIP.